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E.O. 12958: DECL: 03/28/2013

TAGS: ECON EFIN PGOV JA

SUBJECT: FUKUDA GAS TAX COMPROMISE FALLS FLAT

REF: TOKYO 822

Classified By: A/DCM David F. Davison. Reasons 1.4 (b)(d)

¶1. (SBU) Summary: Emulating former Prime Minister Koizumi in facing down powerful interests in his own party, Prime Minister Fukuda put forward a compromise plan to resolve the ongoing gasoline tax controversy without securing the agreement of other Liberal Democratic Party (LDP) leaders. The opposition Democratic Party of Japan (DPJ) immediately rejected the proposal. The provisional gas tax is now certain to expire March 31, at the end of Japan's current fiscal year. The LDP is seeking DPJ support for a stop-gap measure to extend the non-road taxes for one month, but success is uncertain. The Diet is set to approve separate legislation extending special tariff rate measures also due to expire March 31. End Summary.

¶2. (SBU) Prime Minister Fukuda, in a televised press conference late March 27, announced an 11th-hour compromise proposal designed to break the month-long Diet logjam over extension of a provisional 25-yen per liter gasoline tax. If the Diet fails to act, the provisional tax -- which has been in effect for more than 30 years -- will expire April 1. Revenue from the gasoline taxes goes exclusively to road construction projects and serves as a de facto subsidy for local government budgets. The opposition DPJ has attacked the earmarks as an example of wasteful pork-barrel spending and has called for all gasoline taxes to be incorporated into general revenues. Former Prime Ministers Koizumi and Abe each tried and failed to reform the gas tax system, in the face of virulent opposition from within their own party.

¶3. (SBU) In return for DPJ agreement to extend all expiring taxes for FY-2008, Fukuda proposed eliminating the special road-tax earmarks in FY-2009; overhauling the annual review of the tax system; eliminating wasteful spending on road construction; drafting of a new midterm five-year road construction plan, in place of the current 10-year road plan, which has been criticized for overspending and wastefulness; and establishment of a joint committee of the ruling and opposition parties to decide spending priorities for the FY-2008 road construction budget.

¶4. (SBU) Within hours, the opposition DPJ rejected the Prime

Minister's proposal and issued a statement setting out three principles for resolving the impasse. Party leaders called for immediate elimination of the road construction earmarks for FY-2008 and reallocation of the gasoline tax revenue into local government subsidies, immediate elimination of the provisional gasoline tax, and abolishing the practice of "amakudari" through which senior bureaucrats retire into lucrative jobs in private sector or public corporations linked to their former ministries.

¶5. (C) The government is now seeking DPJ support for a stop-gap measure that would extend the non-road taxes for one month until the government can use its two-thirds majority to override Upper House opposition. DPJ leaders March 28 expressed initial opposition to that idea and the DPJ has submitted its own bill to extend provisional tax measures in seven categories, including the tax exemptions for overseas investment accounts, and land transactions, which the government may latch onto. Late on March 28, MOFA contacts told us the DPJ has agreed to a March 31 Upper House vote on separate legislation to extend certain tariff rate concessions due to expire that day (reftel) so approval of that legislation now seems assured.

¶6. (C) Comment: Even if the DPJ had agreed to the Fukuda compromise, the Prime Minister may have faced a revolt from within his own ranks on the plan. Now he has alienated a powerful base of his own party without achieving a breakthrough with the opposition on the tax measures.

SCHIEFFER